February 6, 1939.

Chairman Eccles	Letter from Professor
Lauchlin Currie	Hansen

I think you will be interested in the attached letter from Hansen.

LBC:em

Harvard University
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232 Littauer Center
Cambridge, Massachusetts

2 February 1939

Dr. Lauchlin Currie,
Federal Reserve Board,
Washington, D. C.

Dear Lauchlin:

Many thanks for your comments on my Presidential address. With respect to the President on the budget, I should prefer to make a much fuller statement than is possible in a letter, which I hope to have the occasion to do sometime later.

The Treasury conference last week I think was none too successful. At any rate everyone,(except Riefler who thinks we need the additional savings to make our country more productive. He is for full Reserve Plan.), has agreed that the big reserve should go, but there is less agreement with respect to upping the tax rates in 1940. In fact of the outsiders who were present Viner, Riefler, Brown and Mrs. Burns all favored upping the tax rates despite all the arguments which I tried to make. I have a feeling that, unless new shifts occur with respect to employer and employee sentiment, the President will support the increase in the tax rates. From the standpoint of his past connection with the present act I can see that from a practical viewpoint this is much the easiest thing for him to do.

Very sincerely yours,

(Signed) Alvin H. Hansen

January 27, 1939.

Chairman Eccles — Comments on Hansen's

Lauchlin Currie — Presidential Address

Hansen, in his Presidential address, shows keener awareness of the nature and significance of the basic changes that have occurred in American economy than has any other theoretical economist of note. I think, however, that he falters a bit when he comes to the solutions. The effect of the policy he recommends would neither be full employment nor very bad unemployment. It would be, in effect, semi-stagnation. I am not at all convinced by his statement that a governmentally-induced recovery would run into any more bottlenecks and price rises than would a "natural recovery.

I think that he has not nearly sufficiently stressed the possibilities of so modifying the tax structure as to permit a higher national income on the basis of a smaller volume of capital investment. Finally, I think that he is unduly pessimistic over the possibilities of public investment leading to dictatorship. The Swedes have gone much further in this direction than we have, and Sweden is unquestionably one of the staunchest democracies in the world.

Excerpts from the Presidential Address of Professor Alvin H. Hansen, before the American Economic Association, December 1938.

"We are passing, so to speak, over a divide which separates the great era of growth and expansion of the nineteenth century from an era which no man, unwilling to embark on pure conjecture, can as yet characterize with clarity or precision. We are moving swiftly out of the order in which those of our generation were brought up into no one knows what.

Overwhelmingly significant, but as yet all too little considered by economists, is the profound change which we are currently undergoing in the rate of population growth. In the decade of the nineteen-twenties the population of the United States increased by 16,000,000 -- an absolute growth equal to that of the pre-war and in excess of any other decade in our history. In the current decade we are adding less than half this number to our population, or only 8,000,000, while the best forecasts indicate an increase of less than 6,000,000 in the decade which we are about to enter." p. 2.

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"Thus as a first approximation we may say that the growth of population in the last half of the nineteenth century was responsible for about forty per cent of the total volume of capital formation in the United States. If this is even approximately correct, it will be seen what an important outlet for investment is being closed by reason of the current rapid decline in population growth." p. 14.

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"We are thus rapidly entering a world in which we must lean more and more heavily upon the advance of technology if we are to find private investment opportunities adequate to maintain full employment." p. 18.

"And when a revolutionary new industry like the railroad or the automobile, after having initiated in its youth a powerful upward surge of investment activity, reaches maturity and ceases to grow, as all industries finally must, the whole economy must experience a profound stagnation, unless indeed new developments take its place. It is not enough that a new industry continues at a high level on a horizontal plane. The fact that new railroad mileage continued to be built at about the same rate through the seventies, eighties and nineties was not sufficient. It is the <u>cessation of growth</u> which is disastrous. It is in connection with the growth, maturity and decline of new industries that the principle of acceleration operates with peculiar force. And when giant new industries have spent their force, it <u>may</u>

take a long time before something else of equal magnitude emerges. In fact nothing has emerged in the decade in which we are now living, and nothing sufficiently significant has yet lifted its head over the horizon to make the prospect bright ahead." pp. 19, 20.

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"Various measures are open to us if we wish to maintain full employment, and, in view of the productive resources set free by the cessation of population growth, raise the per capita real income per annum by an amount greater than the nineteenth century rate of advance. Consumption may be strengthened by tapping that volume of voluntary savings which formerly flowed, under the stimulus of a rapid rate of population growth, into capital formation. Public investment may be usefully made in human and natural resources and in consumers' capital goods of a collective character designed to serve the physical, recreational and cultural needs of the community as a whole. But we cannot afford to be blind to the unmistakable fact that a solution along these lines raises serious problems of economic workability and political administration.

"How far such a program, whether financed by taxation or by governmental loan expenditures, can be carried out without adversely affecting the system of free enterprise is a problem with which economists, I predict, will have to wrestle in the future far more intensely than in the past. Can a rising public debt owned internally be serviced by a scheme of taxation which will not adversely affedt the marginal returns on new investment or the marginal cost of borrowing? Can any tax system, designed to deflect voluntary savings into community expenditures on a scale sufficient to accomplish the intended results, be devised which will not progressively encroach on private investment?

"As so often in economic life, we are confronted by a dilemma. Continued unemployment on a vast scale, resulting from inadequate private investment outlets, could be expected sooner or later to lead straight into dictatorship; but so also, by an indirect route and a slower process, might a greatly extended program of public expenditures." pp. 22, 23, 24.

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Thus we are confronted with various alternatives. On the one side, there is the proposal to risk a negative governmental policy in the expectation that the recuperative forces to which we have long been accustomed will, in the absence of political interference, re-assert themselves. On the other side, there is the proposal to go forward under full steam with unrestrained governmental expansion until full employment has been reached. Those who have no doubts whatever about the correctness of their economic analyses will not hesitate to make a bold choice of policy. But others, impressed with the stubborn economic realities of a rapidly changing world, on the one side, and the frailties of human nature in its power to make the appropriate adaptation to change, on the other, will not be so sure, and many prefer to take a middle course -- one that risks neither a negative policy nor a breakdown of collective management." pp.24-25.

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"I suggest -- the figures are only a rough approximation-- that we could not afford to let our income fall materially below $65,000,000,000, or below $60,000,000,000 as a minimum. A scale of net income-creating governmental expenditures adequate to prevent a fall in income below this level can, it seems to me scarcely be questioned, and would currently, I believe, command the support of most economists. As the national income, however, approaches $70,000,000,000, I suggest that the net income-creating governmental expenditures ought to be tapered off. As we approach this income level, the economic situation becomes increasingly explosive. Bottle-necks begin to appear. Costs rise. Labor aggressively demands wage increases. Rising costs lead to inventory speculation. We encounter the familiar vicious spiral of rising costs and rising prices with growing inefficiency. At this level the spending program becomes relatively ineffedtive as a means to raise the real income of the community. This danger point is clearly reached sooner in a democratic country than in a totalitarian state. At what precise point it is reached depends upon the degree of discipline and self-restraint which the various economic groups have achieved or can achieve under democratic institutions. What I am suggesting is that in the United States the upper limit of tolerance in terms of social and economic stresses and strains may be set at around $70,000,000,000. At the $60,000,000,000 income level we can afford to spend heavily to forestall any further decline.

"The objection will almost certainly be raised that the argument which I have directed against continued governmental spending can equally well be directed against private investment, once the upper danger zone has been reached. I should doubt the validity of this criticism. If the government continues to pour out funds at a lavish rate, wage-earners and employers alike are likely to take the easy course which leads to higher costs and higher prices. But, if reliance could not be placed upon a stream of purchasing power external to business itself, we could expect, I think, a more vigorous resistance to uneconomic cost-raising demands. Public spending is the easiest of all recovery methods, and therein lies its danger. If it is carried too far, we neglect to attack those specific maladjustments without the removal of which we cannot attain a workable cost-price structure, without which it is not possible to achieve the otherwise available flow of private investment." pp.25,26,27.